

office space monitor: july-september 2013

market overview

Office market indicators show a stable leasing environment in Montgomery County over the past year. Strong pre-leasing in new single-tenant office buildings helped absorb new construction, while postponed federal space consolidations bolstered occupancy rates.

The outlook for the next few months is more clouded. A stagnant labor market, ongoing sequestration impacts, and future interest rate and federal spending uncertainties point to a tepid hiring environment and softening demand for office space.

office demand

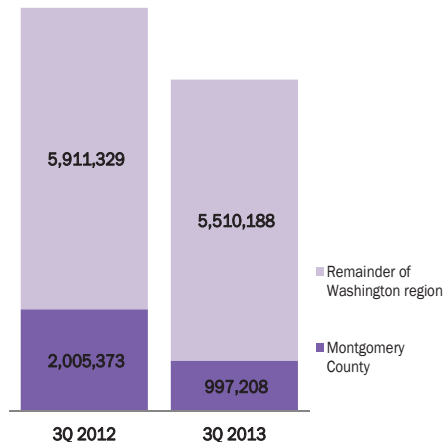
Job growth in Montgomery County has been relatively weak, with only 1,797 jobs added between March of 2012 and 2013; this accounts for less than five percent of the 40,080 jobs added region-wide. The County's job base expanded by 0.4 percent over the year, well below the pace of job growth in the region (1.4 percent) and nation (1.6 percent).

Unemployment among County residents fell to 5.0 percent in August 2013, down from a three-year high of 6.0 percent in June 2013 and down from 5.3 percent one year ago. The unemployment rate for County residents was below the regional and national levels of 5.4 percent and 7.3 percent, respectively. Even so, August unemployment was roughly double the County's 2.6 percent pre-recessionary rate in August 2007, and only slightly lower than the 5.2 percent unemployment rate averaged over the last three years.

MARKET INDICATORS

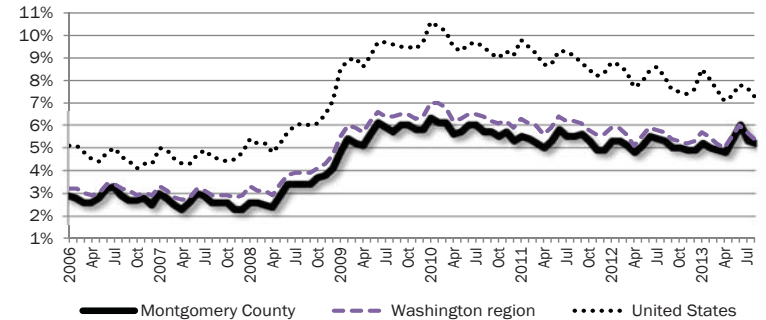
	2012	2013	change
Unemployment (August)	5.3%	5.0%	-0.3%
Employment (Q1)	446,403	448,200	1,797
	3Q 2012	3Q 2013	change
Average Rent	\$28.14	\$28.11	-\$0.03
Vacancy Rate	13.5%	13.5%	-
Net Absorption Deliveries	(176,141)	134,327	310,468
Buildings	-	1	1
Square Feet	-	41,156	41,156
Under Construction			
Buildings	7	4	(3)
Square Feet	2,005,373	997,208	(1,008,165)
Inventory			
Buildings	1,525	1,521	(4)
Square Feet	71,099,582	72,398,086	1,298,504
Vacant Square Feet	9,759,684	9,795,362	35,678

OFFICE SPACE UNDER CONSTRUCTION

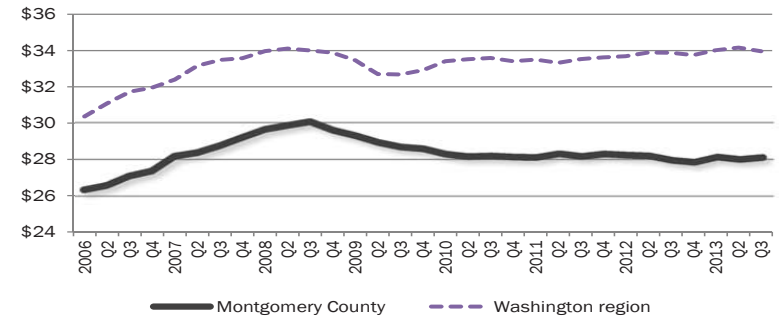


Renewed federal budget turmoil, interest rate uncertainties, and weak job growth may destabilize the County's office market.

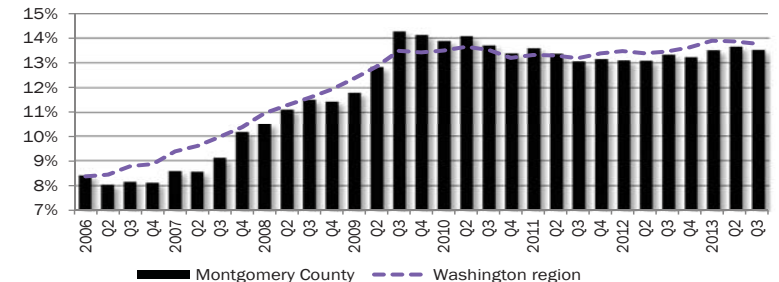
UNEMPLOYMENT RATE, 2006-2013



AVERAGE OFFICE RENT PER SQUARE FOOT, 2006-2013



OFFICE VACANCY RATE, 2006-2013



Sources: Labor market: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, Current Employment Survey, and Quarterly Census of Employment and Wages data as of September, 2013. Office market: CoStar as of 10/8/2013.

third quarter office market highlights

Year-over-year third quarter vacancy rates held steady at 13.5 percent. The County's third quarter office vacancy rate was the second lowest in the region after Washington, D.C. (9.8 percent).

Office rents in the County averaged \$28.11 per square foot in the third quarter, virtually unchanged from one year ago (\$28.14). County rents were below the regional average (\$33.96), but in line with Fairfax County (\$28.38).

Net absorption—the net change in the amount of occupied space in the market—was positive 134,327 square feet in the third quarter of 2013, compared to negative 176,141 one year ago.

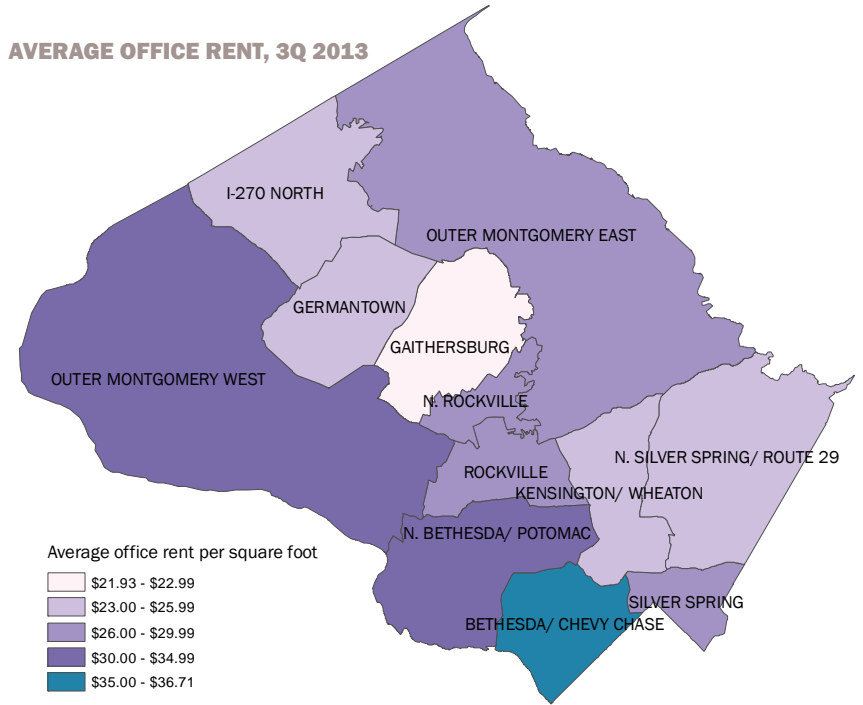
The County added 1.3 million square feet of new office space over the year, nearly all of which was pre-leased to single tenants including the National Cancer Institute, the Nuclear Regulatory Commission and Choice Hotels International

submarket activity

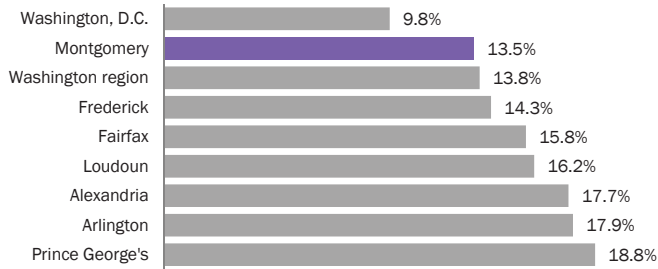
Among the County's major office submarkets, Bethesda/Chevy Chase had the lowest third quarter vacancy rate at 9.1 percent. Rockville had the largest bloc of vacant office space (2.1 million square feet), accounting for 16 percent of vacant inventory Countywide. Office rents ranged from a low of \$21.93 per square foot in Gaithersburg to a high of \$36.71 per square foot in Bethesda.

Four office properties totaling 997,208 square feet of leasable space were under construction during the third quarter. The largest project currently underway is the new National Institute of Allergy and Infectious Diseases (NIAID) at 5601 Fishers Lane in Rockville, with 490,998 square feet scheduled to deliver in April 2014.

AVERAGE OFFICE RENT, 3Q 2013



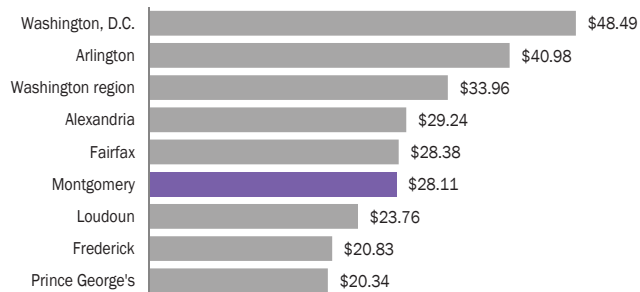
OFFICE VACANCY RATE, 3Q 2013



OFFICE SPACE UNDER CONSTRUCTION BY SUBMARKET, 3Q 2013



AVERAGE OFFICE RENT PER SQUARE FOOT, 3Q 2013



BUILDINGS UNDER CONSTRUCTION IN MONTGOMERY COUNTY, 3Q 2013

	National Institute of Allergy & Infectious Diseases (NIAID) 5601 Fishers Ln	4500 East West Highway 4500 East West Hwy	Pike & Rose / Building 11 11800 Grand Park Ave	Fallsgrove Plaza 14995 Shady Grove Rd
Submarket	Rockville	Bethesda/Chevy Chase	North Bethesda/Potomac	North Rockville
Developer	The JBG Companies	Carr Properties	Federal Realty Inv. Trust	Lerner Enterprises
Square Feet	490,998	226,566	169,644	110,000
Stories	10	9	8	5
Percent Leased	100%	0%	53%	0%
Average Rent	n/a	n/a	\$45.00	\$45.00
Delivering	April, 2014	June, 2014	August, 2014	April, 2014

Source: Montgomery County Planning Department analysis of CoStar data as of 10/8/2013. Note that there may be a delay in CoStar's reporting of development activity, including construction starts, under-construction inventory, and completions in the most recent quarters.